

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE	)	
COMMISSION OF THE ENVIRONMENTAL	)	
SURCHARGE MECHANISM OF LOUISVILLE GAS	)	
AND ELECTRIC COMPANY FOR THE SIX-MONTH	)	CASE NO.
BILLING PERIODS ENDING APRIL 30, 1998,	)	2000-105
OCTOBER 31, 1998, AND OCTOBER 31, 1999,	)	
AND FOR THE TWO-YEAR BILLING PERIOD	)	
ENDING APRIL 30, 1999	)	

O R D E R

On March 14, 2000, the Commission initiated three six-month reviews and one two-year review of Louisville Gas and Electric Company's ("LG&E") environmental surcharge as billed to customers for the following periods: the six-month periods November 1, 1997 to April 30, 1998; May 1, 1998 to October 31, 1998; May 1, 1999 to October 31, 1999; and the two-year period May 1, 1997 to April 30, 1999.<sup>1</sup> Pursuant to KRS 278.183(3), the Commission must review, at six-month intervals, the past operations of the surcharge; after hearing, disallow any surcharge amounts that are not just and reasonable; and reconcile past surcharge collections with actual costs recoverable. At two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge and, after hearing, disallow improper

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<sup>1</sup> Since LG&E's surcharge is billed on a two-month lag, the amounts billed from November 1997 through April 1998 are based on costs incurred from September 1997 through February 1998; amounts billed from May 1998 through October 1998 are based on costs incurred from March 1998 through August 1998; amounts billed from May 1999 through October 1999 are based on costs incurred from March 1999 through August 1999; and amounts billed from May 1997 through April 1999 are based on costs incurred from March 1997 through February 1999.

expenses and, to the extent appropriate, incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

Anticipating that those parties to LG&E's last six-month review would desire to participate in this proceeding, the Commission deemed the Attorney General's office and the Kentucky Industrial Utility Customers, Inc. parties to this proceeding. A public hearing was held on July 20, 2000.

### TOTAL REVENUES

In initially establishing an environmental surcharge for LG&E in Case No. 94-332,<sup>2</sup> the Commission's April 6, 1995 Order required LG&E to use total revenues to allocate the surcharge between retail and wholesale customers:

The Commission will approve the use of the percentage of revenues method proposed by LG&E. However, we will require that total revenues, including all off-system sales revenues, be included in the surcharge calculation. This is consistent with the Commission's earlier decisions in both the KU and Big Rivers surcharge cases.<sup>3</sup>

In its May 12, 1995 Order, the Commission affirmed that decision, stating:

The Commission's decision to calculate the surcharge on total revenue comports with both the letter and the spirit of the law. By enacting the environmental surcharge statute, the General Assembly made a policy decision that eligible environmental costs should be recovered from retail ratepayers on an expedited basis without the need for a general rate application. However, nothing in the statute indicates an intent to require retail ratepayers to shoulder the environmental costs attributable to wholesale, off-system sales which are not subject to regulation by this Commission.<sup>4</sup>

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<sup>2</sup> Case No. 94-332, The Application of Louisville Gas and Electric Company for Approval of Compliance Plan and to Assess a Surcharge Pursuant to KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products, final Order dated April 6, 1995.

<sup>3</sup> Id. at 21-22.

<sup>4</sup> Case No. 94-332, rehearing Order dated May 12, 1995, at 1-2.

In January 1999 LG&E began engaging in “brokered sales” transactions. Brokered sales transactions are not served by LG&E’s generation, typically do not flow into its control area, and are matched with purchases. Brokered sales transactions can also be considered as one half of a buy-resell transaction. Brokered sales are conducted under a Federal Energy Regulatory Commission approved tariff and no expenses associated with the transactions are included for recovery in the environmental surcharge. Thus, LG&E has excluded brokered sales from its total company revenues in determining the jurisdictional allocation ratio for any expense month under review in this case.<sup>5</sup>

During the review, the Commission requested LG&E to reconcile the monthly total company revenues as reported on ES Form 3.0<sup>6</sup> with the monthly operational revenues reported in its monthly financial reports.<sup>7</sup> In the reconciliation, LG&E identified several types of revenues that it has excluded from the calculation of the environmental surcharge allocation ratio. In addition to brokered sales transactions, LG&E has been excluding the following: unbilled revenues; revenues subject to refund; refunds associated with Trimble County, the environmental surcharge, decoupling, and demand-side management; and miscellaneous revenues from items unrelated to LG&E sales.<sup>8</sup> As these five types of revenues are neither associated with LG&E’s generating units nor

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<sup>5</sup> Response to the Commission’s March 14, 2000 Order, Item 13.

<sup>6</sup> ES Form 3.0, Average Monthly Jurisdictional Revenue Computation R(m), is one of several schedules filed by LG&E as part of its monthly environmental surcharge filing. The reconciliation focused on the revenues reported in column 8 of ES Form 3.0.

<sup>7</sup> Response to the Commission’s March 14, 2000 Order, Items 4, 8, 12, and 17.

<sup>8</sup> Response to the Commission’s May 5, 2000 Order, Item 4.

have environmental costs associated with them, LG&E contends it is appropriate to exclude these revenues from the environmental surcharge calculations.<sup>9</sup>

The Commission finds that LG&E's arguments are persuasive and agrees that these types of revenues should not be considered part of LG&E's total company revenues when determining the environmental surcharge allocation ratio. The exclusion of LG&E's brokered sales is consistent with the exclusion of non-physical revenues in the environmental surcharge for Kentucky Power Company d/b/a American Electric Power. The other types of revenues identified in LG&E's reconciliation are not related to its generation of electricity or a source of environmental costs to LG&E. In order to maintain a link between the revenues reported on ES Form 3.0 and LG&E's monthly financial reports, the Commission also finds that LG&E should include a schedule with its monthly ES Form 3.0 that lists the types of revenue excluded in LG&E's surcharge calculations and the corresponding monthly amounts.

#### SURCHARGE ROLL-IN

LG&E did not propose to incorporate the environmental surcharge into its base rates because it believes it is inappropriate to do so at this time. LG&E cites the fact that the last expense month in the two-year review period is February 1999, which is over a year ago. LG&E also notes that the current two-year review period does not recognize any impacts of the Settlement Agreement approved by the Commission in August 1999 that excluded certain costs from recovery through the environmental

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<sup>9</sup> Transcript of Evidence ("T. E."), July 20, 2000, at 27 and 29, lines 14-19.

surcharge mechanism.<sup>10</sup> The intervenors have expressed no position on a surcharge roll-in during this review.

LG&E answered several questions during discovery and at the public hearing concerning the approach to be used to roll-in the surcharge and the need for other modifications to the surcharge mechanism.<sup>11</sup> During the public hearing, LG&E suggested that an informal technical conference be scheduled to discuss the mechanics of these issues with the parties and Commission Staff.<sup>12</sup>

The Commission finds that LG&E's arguments in opposition to a surcharge roll-in now are reasonable and that any roll-in should be deferred to a subsequent review. The Commission also believes that, due to the technical nature of the issues associated with a future roll-in, LG&E's suggestion of an informal technical conference is appropriate. The Commission will schedule such a conference among the parties and Commission Staff in the near future.

#### SURCHARGE ADJUSTMENT

In its March 14, 2000 Order, the Commission indicated that since each of the four periods under review in this proceeding may have resulted in over- or under-recoveries, the Commission would entertain proposals to adopt one adjustment factor to net all

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<sup>10</sup> Bosta Direct Testimony at 6. The incorporation of the surcharge into existing base rates has commonly been referred to as a "roll-in" of the surcharge.

<sup>11</sup> See Response to the Commission's March 14, 2000 Order, Items 18 through 20; Response to the Commission's May 5, 2000 Order, Items 2 and 5 through 9; T. E., July 20, 2000, at 13-24 and 29-43. The other modifications discussed were the implementation of a true-up component for the surcharge mechanism and the use of a base period versus current period methodology to calculate the surcharge.

<sup>12</sup> T. E., July 20, 2000, at 44.

over- or under-recoveries. LG&E determined that for the three six-month review periods and the last quarter of the two-year review period, it over-recovered its environmental costs by a cumulative \$346,076.<sup>13</sup> LG&E proposed that the cumulative over-recovery be returned to customers by reducing the environmental surcharge revenue requirement by \$86,519 in each of the first four billing months following the Commission's decision in this proceeding.<sup>14</sup>

The Commission has reviewed and finds reasonable LG&E's calculation of a cumulative over-recovery of \$346,076 for the three six-month review periods and the last quarter of the two-year review period. The Commission also finds reasonable LG&E's proposal to reduce the environmental surcharge revenue requirement calculated in each of the first four billing months following the date of this Order by \$86,519.

IT IS THEREFORE ORDERED that:

1. LG&E shall deduct \$86,519 from the environmental surcharge revenue requirement determined in its next four monthly surcharge reports.
2. For purposes of calculating LG&E's environmental surcharge, total company revenues shall exclude revenues from brokered sales transactions and other revenue sources not associated with the generation of electricity or resulting in environmental costs, as described in this Order. Beginning with the first monthly surcharge report submitted after the date of this Order, LG&E shall include a schedule

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<sup>13</sup> Bosta Direct Testimony at 3.

<sup>14</sup> \$346,076 divided by 4 billing months equals \$86,519.

with ES Form 3.0 which lists each type of revenue excluded from the environmental surcharge calculations and the corresponding amount of revenues.

3. The environmental surcharge for the two-year period as billed from May 1, 1997 to April 30, 1999 shall not be incorporated into LG&E's existing base rates.

4. An informal technical conference with the parties and Commission Staff shall be scheduled to discuss issues associated with a future incorporation of the environmental surcharge into LG&E's existing base rates, as discussed in this Order.

Done at Frankfort, Kentucky, this 17<sup>th</sup> day of October, 2000.

By the Commission

ATTEST:

Deputy Wm H. Fowler  
Executive Director